api INSTRUMENTS CO.

Annual Report 1966

API instruments are used (left to right) in operating rooms, textile mills, semiconductor manufacturing, electrodeposition of paint and power generation.

api INSTRUMENTS CO. ANNUAL REPORT 1966

The Record in Brief

	1966	1965
Net sales	$8,442,131	$6,942,031
Federal income taxes	432,200	404,000
Net earnings	495,753	439,198
Earnings per share	.99	.88


William T. Robbins


John D. Saint-Amour


David T. Morgenthaler


Robert H. Pugsley


George J. Crowdes, Jr.


Thomas H. Conner


Myron W. Ulrich


John P. Isham

BOARD OF DIRECTORS

William T. Robbins, *Chairman*
John D. Saint-Amour
Robert H. Pugsley
David T. Morgenthaler

OFFICERS

John D. Saint-Amour
President

Robert H. Pugsley
Executive Vice-President

George J. Crowdes, Jr.
Vice President

Thomas H. Conner
Vice-President—Finance
Treasurer

Myron W. Ulrich
Secretary

John P. Isham
Controller

Employees discuss personal and company progress at weekly meetings in Mr. Saint-Amour's office.

TO OUR STOCKHOLDERS, EMPLOYEES AND FRIENDS:

We are pleased to report that 1966 was a year in which API reported new highs in operations, and made rapid progress on its program of building the base for an even greater rate of future growth through new product development, broadened markets, physical expansion and management additions.

API's dedication to product planning and the development of new markets is evidenced by the fact that more than half of 1966 sales were comprised of products developed within the past five years. This is indicative of the technological evolution and shifting pattern of products that characterize the company today, and its objective of keeping ahead of competition. To an ever increasing degree, the company's basic meter competence is being combined with solid-state electronics.

Shipments for the year totaled $8,442,131, up from $6,942,031, in 1965.

Net income in 1966 approached the half-million dollar mark for the first time, rising to $495,753, from $439,198, the previous record, which was set in 1965. Earnings of $.99 per share reached our goal and were up from $.88 per share in 1965.

Although shipments exceeded our goal, profits did not keep pace, mostly because of higher labor costs. To counteract these cost increases, which were industry-wide, prices were increased in November for selected panel meters and meter-relays. These price adjustments should bring us a more favorable return on the products affected.

Orders booked during the year were approximately 30 per cent higher than those taken in 1965. They totaled $9,685,000, adding to the backlog for 1967. Six sales districts booked $1,000,000 or more each.

New sales offices were opened in Detroit, Atlanta and Dayton, providing more intensive coverage of these promising areas.

The regular quarterly dividend of 10 cents per share was paid during the year. Total payout of 40 cents was thus the highest in our history, up from 35 cents in 1965.

CANADIAN PLANT WILL SERVE OVERSEAS MARKETS

Following final arrangements made in 1966, we opened a new Canadian manufacturing operation in Oshawa, Ontario, in early 1967. This move was made because foreign sales were being held back by a combination of factors inherent in shipping from Chesterland. Studies showed that products manufactured outside the United States could be offered overseas customers on a much more advantageous basis.

Canada was the most logical site for our first manufacturing operation outside the United States. While the level of operations is modest at present, we expect it to accelerate rapidly. The Oshawa plant is 35 miles east of Toronto.

Ever wonder where API instruments are used?

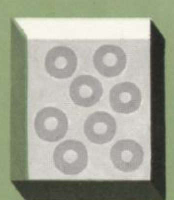
Almost every American manufacturing enterprise of any importance uses API instruments somewhere. Here are some of the more unusual applications, as developed during the past year by API sales engineers.

Optical meter-relays and circuit modules guard against surprise attack by tidal waves. Installed in unattended "sentries" along the West Coast, the instruments transmit alarm signals when earth tremors become dangerously large or too frequent.

At large chicken farms, API controllers warn if consumption of feed or water is abnormal. Many undesirable conditions are detected: sickness in the flock, an overflowing or dry well, improper operation of conveyors, even short-weight deliveries of grain.

Meter-relays and modules govern a constant DC current that in turn causes silver to be plated evenly on wire. One company alone saves $100,000 a year in silver—and requires one less man.

API instruments actuate silicon-controlled rectifiers (SCR's) that provide a constant load on motors to insure that oil is squeezed properly from flax.



Extremely precise API controllers maintain temperature during bonding of fine wire into microcircuitry. Other controllers stabilize the temperature of frying fat in franchised doughnut houses.

In the first such production-line system, colors in textile fabrics are kept the same as those in samples. The same principle could be adapted to other continuous processes where visible light properties must be monitored.

PHYSICAL EXPANSION

Capital expenditures continued at a high rate, aggregating $532,737 in 1966. The second step in our long-range plan to provide 140,000 square feet of production and office space at our new location in Chesterland was completed near the end of the year. A total of 21,600 square feet was built, which doubled the size of this plant. Several departments will be moved into the new space during the months of January and February, 1967. We hope that the present total of approximately 98,000 square feet (at both locations) will suffice through 1967.

PERSONNEL EXPANSION

One of the most evident signs of growth during the year was the increase in our work force. We added approximately 160 people during the year—more than the total employed only ten years ago.

With the expansion of our work force, many new opportunities have arisen at supervisory and middle-management levels. Wherever possible, we have promoted from within. In some cases we have reached outside the organization for executives with talents and experience we needed immediately. The new higher management positions filled this past year include those of Vice President-Finance, Manufacturing Manager, Chief Manufacturing Engineer and Personnel Manager.

In addition, we recently retained Dr. Harry W. Mergler, director of the Digital Systems Engineering Laboratory at Case Institute of Technology, as a consulting member of our Executive Product Planning Committee.

Dr. Mergler heads the largest unit in Case's graduate school and is a consultant to a number of leading industrial concerns and government agencies. His exceptional background in computers and controls will be invaluable in helping us to develop new products for tomorrow's markets.

To help maintain our present excellent employee relations, we instituted a new payroll plan that provides a higher basic wage. This plan superseded a profit-sharing bonus plan that had been in effect almost from the beginning of our company. The new plan gives employees more certainty about probable earnings and thus overcomes a basic defect in the older arrangement.

In an effort to help the employees to do a better job, and to control labor costs, our industrial engineering department will be strengthened significantly in 1967, with much more emphasis being placed on methods and standards. A consulting firm has been employed to aid us. By making use of our physical facilities, and by working intensively with supervisors, we expect to achieve our higher shipment goals in 1967 without proportionate increases in manpower.

We are deeply aware of how much employee enthusiasm means to us, and we are doing everything feasible to maintain API as a place where people enjoy their work. An indicator of above-average employee interest is the fact that approximately 20 per cent own API stock. All employees buy their stock at market price through a payroll deduction plan.

Newest plant addition affords excellent working conditions with high-efficiency lighting.

Basic meter movement of most API instruments demands exacting skills.

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THE OUTLOOK

In 1967 we will naturally continue our vigorous promotion of products in which we are acknowledged to have superior competence. We will also reach out increasingly into relatively undeveloped areas with the greatest potential growth.

API panel meters, for example, have steadily increased their reputation as the most precise and reliable available. Our Compack controllers were immediate successes when first introduced a couple of years ago, and all signs indicate that these small self-contained instruments will find many new applications. No other company offers nearly as complete a line of comparable instruments. Similarly, we offer a broad choice of temperature controllers, enabling a customer to pick the type, size and style best suited to his needs.

Finally, we intend to continue pushing sales of instruments available for quick delivery from stock. From a modest beginning several years ago, our sales from stock have increased to more than 25 per cent of total shipments. We are adding instruments as fast as possible to our stock because "off-the-shelf" sales are the most advantageous for customers, and, generally, more profitable.

With the rapid pace of modern technology, the market for our instruments is a dynamic one. Economic conditions for 1967, however, are clouded at the present time, and it is difficult to make firm predictions. There is every reason to believe we can exceed 1966 shipments, but attaining a proportionate increase in earnings may be more difficult. Both new orders and profits for the first quarter are currently below desired levels. However, we will make every effort to achieve maximum profitability, as we have done in the past.

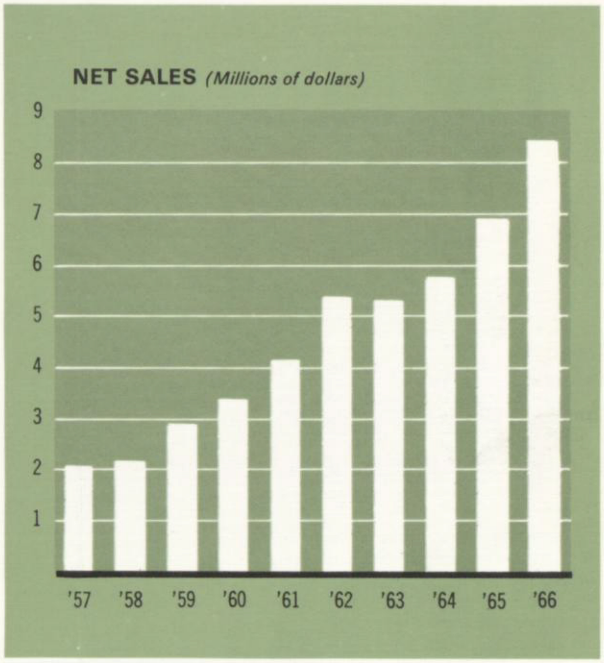
Looking beyond the immediate future, we believe our present planning will bring all necessary factors together in a highly effective manner. We look forward confidently to a year that will advance the interests of all concerned with API.

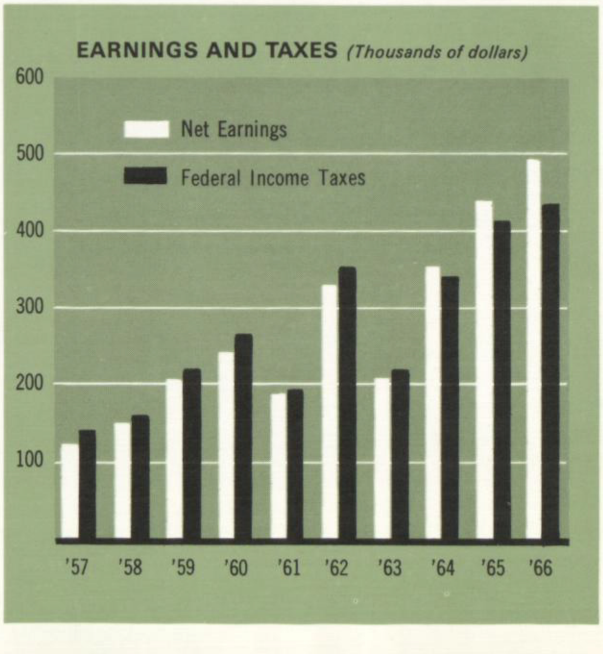
Sincerely,

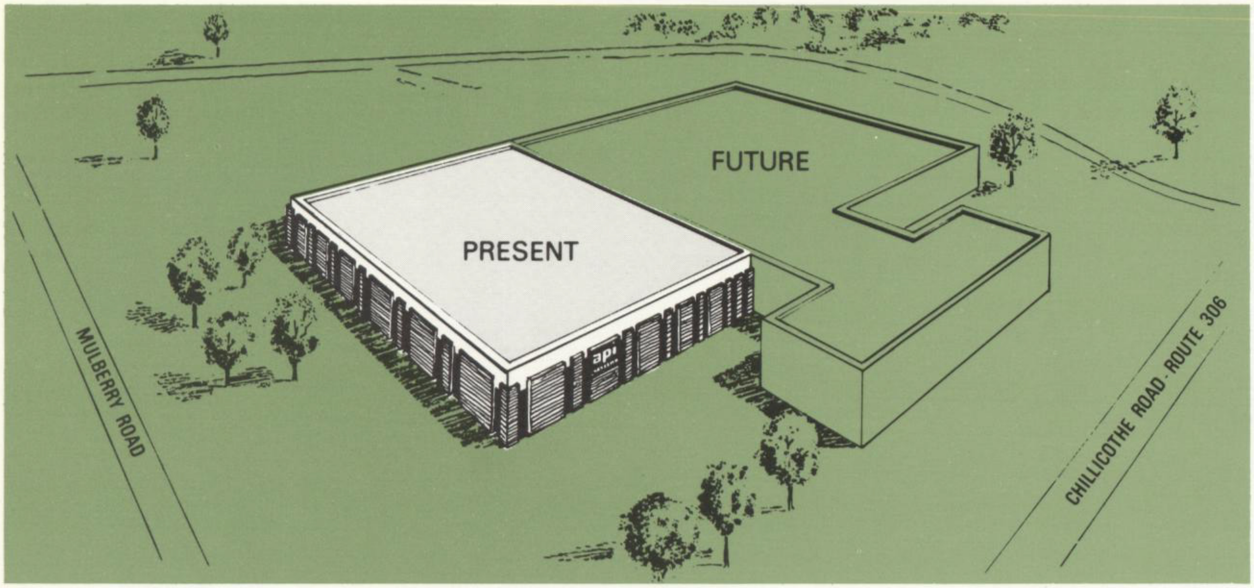
John B Saint-Amour

President

February 27, 1967







Long-range planning calls for expanding new Controls Division plant from 43,200 square feet at present to 140,000 square feet eventually.

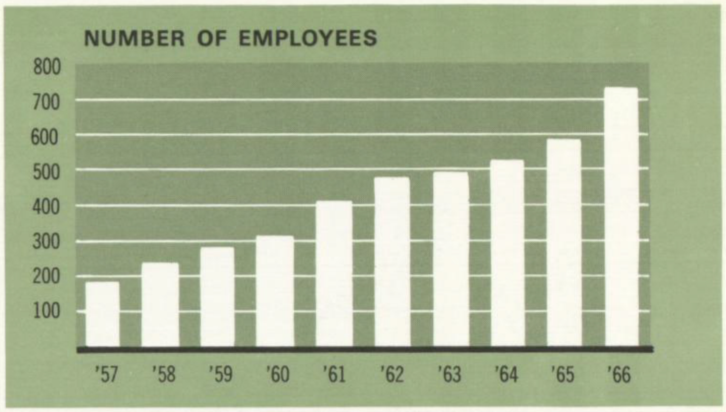
TEN-YEAR FINANCIAL SUMMARY

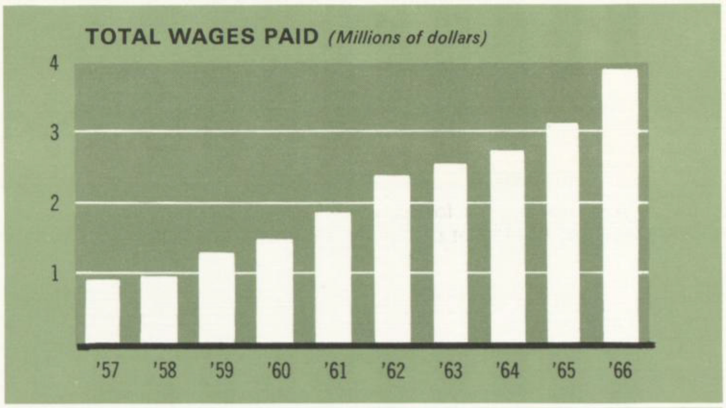
	1966	1965	1964	1963	1962	1961	
Net Sales	$8,442,131	$6,942,031	$5,812,783	$5,346,356	$5,371,164	$4,161,389	$3,
Earnings before Federal taxes on income	927,953	843,198	692,244	411,896	684,442	378,889	
Provision for Federal taxes on income	432,200	404,000	340,000	208,000	351,500	190,000	
Net earnings	495,753	439,198	352,244	203,896	332,942	188,889	
Earnings per share (A)	.99	.88	.71	.41	.67	.39	
Cash dividends per share	.40	.35	.30	.05	.10	—	
Additions to property, plant and equipment	532,737	529,894	120,631	165,007	129,276	480,732	
Provision for depreciation	175,309	152,232	138,713	135,946	128,516	99,802	
Current assets	3,259,316	3,045,808	2,994,188	2,856,240	2,943,954	1,682,887	1
Current liabilities	1,016,952	782,314	654,515	537,306	664,389	541,693	
Working capital	2,242,364	2,263,494	2,339,673	2,318,934	2,279,565	1,141,194	
Long-term debt payable	1,029,000	1,054,000	1,075,000	1,273,570	1,250,000	305,000	
Book value per share (B)	5.58	4.95	4.41	4.00	3.89	3.32	
Stockholders' equity	2,797,294	2,470,904	2,197,571	1,994,725	1,961,834	1,647,500	1

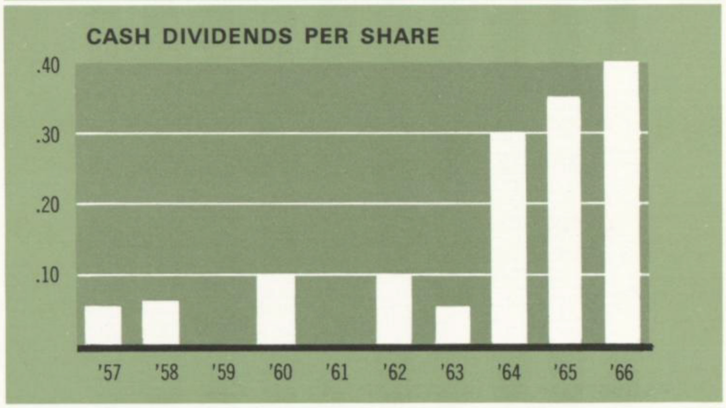
Notes: **(A)** Stated on the basis of average shares outstanding with the public at the beginning and end of the respective periods, adjusted for stock split (200% in 1959) and stock dividends (5% in 1960 and 4% in 1963).

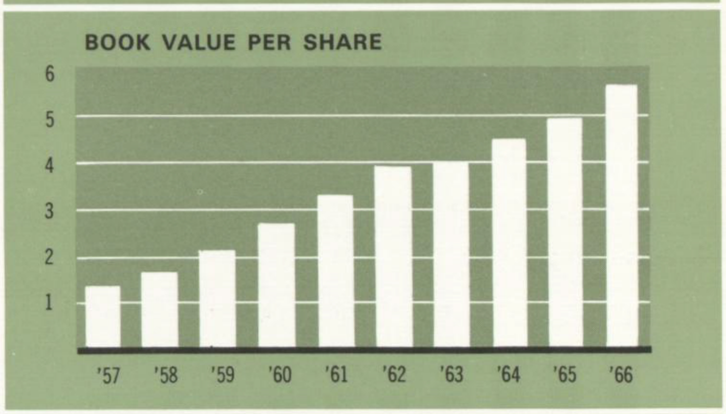
(B) At close of the respective years adjusted for stock split (200% in 1959) and stock dividends (5% in 1960 and 4% in 1963).

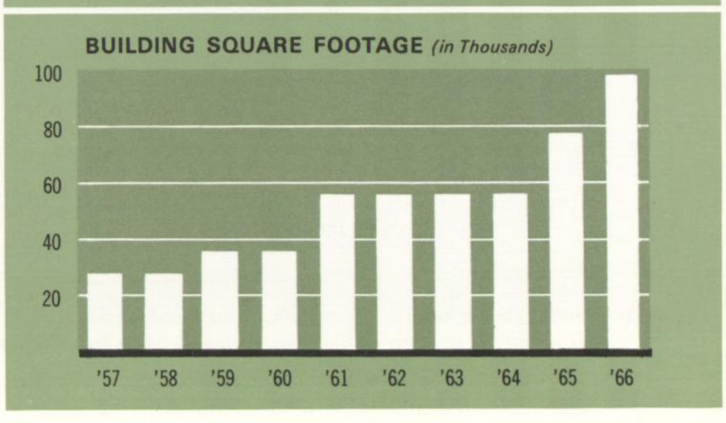
960	1959	1958	1957
400,579	$2,914,170	$2,157,540	$2,068,279
502,285	416,830	308,119	263,141
260,227	214,977	156,969	135,866
242,058	201,853	151,150	127,275
.51	.44	.33	.32
.10	—	.06	.05
71,880	209,363	41,347	128,616
64,568	48,185	43,518	35,035
,323,270	980,811	782,434	709,695
391,616	376,326	323,635	299,248
931,654	604,485	458,799	410,447
100,000	150,000	53,269	77,358
2.75	2.11	1.69	1.41
,327,858	962,833	760,981	638,130











ASSETS

	December 31, 1966	December 31, 1965
CURRENT ASSETS:		
Cash	$ 138,657	$ 149,733
United States Treasury Bills, at cost plus accrued interest	—	297,694
Accounts receivable, less allowance for doubtful accounts of $13,540 in 1966 and $12,500 in 1965	1,360,447	1,257,570
Inventories, at the lower of cost (first-in, first-out) or market	1,734,867	1,310,128
Prepaid expenses	25,345	30,683
TOTAL CURRENT ASSETS	$3,259,316	$3,045,808
OTHER ASSETS:		
Non-current receivable, less allowance for loss of $35,000	$ 34,952	$ 34,952
Cash surrender value of life insurance—net	842	27,080
Unamortized debenture expense	42,298	50,967
	$ 78,092	$ 112,999
PROPERTY, PLANT AND EQUIPMENT:		
Land and buildings	$1,539,553	$1,173,608
Machinery and equipment	612,593	600,193
	$2,152,146	$1,773,801
Less accumulated depreciation	646,308	625,390
	$1,505,838	$1,148,411
	$4,843,246	$4,307,218

NOTES TO FINANCIAL STATEMENTS *Year Ended December 31, 1966*

A—5¾% CONVERTIBLE SUBORDINATED DEBENTURES

The debentures are due September 1, 1972. They are convertible into common shares at $13.46 per share (with anti-dilution adjustment provisions) and are redeemable at the company's option in whole or in part at a premium of 5% through August 31, 1967. Thereafter, the premium decreases at a rate of 1% per annum. Bonds in the amount of $25,000 were converted into common stock during 1966. Approximately 76,450 shares of the company's authorized but unissued common stock are reserved for conversion of the debentures at December 31, 1966.

The trust indenture includes various restrictive covenants. The payment of dividends (other than in shares of its own stock) or purchase, redemption or acquisition of its capital stock is restricted to net earnings after December 31, 1961 plus $100,000 and the net consideration from issue or sale of its own shares. Approximately $1,250,000 of retained earnings were not restricted at December 31, 1966 by this indenture clause.

B—STOCK OPTIONS

Under the company's stock option plans, options are granted at not less than fair market value (95% of fair market value of restricted options) at date of grant. The options are for a period of five years and are exercisable eighteen months after date of grant except that not more than 40% may be exercised within two years from date of grant, and 20% each year thereafter during the remaining option period. Cumulative provisions apply with respect to any period in which that portion of the option was not exercised.

During the year ended December 31, 1966, 757 shares of common stock were issued for $5,867 under the company's stock option plans. Changes in stock options during the year were as follows:

COMPANY *BALANCE SHEET*

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1966	December 31, 1965
CURRENT LIABILITIES:		
Note payable to bank	$ 150,000	—
Accounts payable and accrued expenses:		
Trade accounts	$ 306,961	$ 175,723
Payroll and other taxes	131,444	128,692
Salaries, wages and commissions	189,021	176,264
Interest	20,797	20,202
Other	10,666	15,915
	$ 658,889	$ 516,796
Federal taxes on income	$ 208,063	$ 265,518
TOTAL CURRENT LIABILITIES	$1,016,952	$ 782,314
5¾% CONVERTIBLE SUBORDINATED DEBENTURES (Note A)	$1,029,000	$1,054,000
STOCKHOLDERS' EQUITY:		
Common stock, par value $1 per share: Authorized 750,000 shares (Notes A and B) Issued 509,173 shares in 1966 and 506,561 shares in 1965 (including 6,934 shares held in treasury)	$ 509,173	$ 506,561
Additional paid-in capital	842,958	814,704
Retained earnings (Note A)	1,484,170	1,188,646
	$2,836,301	$2,509,911
Less 6,934 shares of common stock held in treasury, at cost	39,007	39,007
	$2,797,294	$2,470,904
	$4,843,246	$4,307,218

	Restricted Stock Option Plan: Price Range Per Share	Restricted Stock Option Plan: Number of Unexercised Option Shares	Qualified Stock Option Plan: Price Range Per Share	Qualified Stock Option Plan: Number of Unexercised Option Shares
January 1, 1966	$ 5.26—$15.08	6,685	$ 6.94 — $10.88	3,970
Granted		—	$14.38 and $14.50	5,250
Exercised	$8.45	(237)	$ 6.94 — $ 9.50	(520)
Expired	$13.93—$15.08	(2,860)		—
December 31, 1966	$ 5.26—$ 8.45	3,588	$ 6.94 — $14.50	8,700
Options exercisable at December 31, 1966		2,548		670

An additional 19,530 shares are available for future grants under the qualified stock option plan.

C—PENSION PLAN

The charge to operations for the company's cost of the employees' contributory pension trust was $51,614 in 1966 and $46,654 in 1965. No past service liability exists under the plan.

D—SUBSIDIARY COMPANY

During the year API Instruments Canada, Limited was organized as a wholly-owned subsidiary. At December 31, 1966, the net assets of this company (included herein) were nominal and operations had not begun.

STATEMENT OF EARNINGS AND RETAINED EARNINGS

	Year Ended December 31, 1966	1965
NET SALES	$8,442,131	$6,942,031
COST AND EXPENSES:		
Cost of products sold, exclusive of depreciation, amortization and taxes	$5,681,391	$4,587,737
Selling, administrative and general expenses	1,312,185	1,093,584
Depreciation	175,309	152,232
Taxes, other than federal taxes on income	257,922	179,443
Provision for uncollectible receivables	28,797	56,922
Interest expense (including amortization of debenture expense)	69,870	70,420
	$7,525,474	$6,140,338
Interest income and gain on sale of assets of $15,789 in 1965	11,296	41,505
	$7,514,178	$6,098,833
EARNINGS BEFORE FEDERAL TAXES ON INCOME	$ 927,953	$ 843,198
PROVISION FOR FEDERAL TAXES ON INCOME	432,200	404,000
NET EARNINGS—$.99 per share in 1966 and $.88 per share in 1965	$ 495,753	$ 439,198
RETAINED EARNINGS, beginning of year	1,188,646	924,153
	$1,684,399	$1,363,351
Cash dividends—$.40 per share in 1966 and $.35 per share in 1965	200,229	174,705
RETAINED EARNINGS, end of year	$1,484,170	$1,188,646

See notes to financial statements.

STATEMENT OF ADDITIONAL PAID-IN CAPITAL

	Year Ended December 31, 1966	1965
BALANCE, beginning of year	$814,704	$807,499
Excess of proceeds received over par value of common shares (757 shares in 1966 and 1,635 shares in 1965) sold upon the exercise of stock options	5,110	7,205
Excess of face value of 5¾% convertible subordinated debentures over par value of 1,855 common shares issued upon conversion	23,144	—
BALANCE, end of year	$842,958	$814,704

See notes to financial statements.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year Ended December 31, 1966

FUNDS PROVIDED:		
Net earnings for the year		$495,753
Charges to net earnings requiring no expenditure of funds:		
Depreciation	$175,309	
Amortization of debenture expense	8,669	183,978
Proceeds from loans on life insurance policies		36,540
Proceeds from stock options exercised		5,867
Decrease in working capital (see below)		21,130
		$743,268
FUNDS APPLIED:		
Cash dividends paid		$200,229
Net additions to property, plant and equipment		532,737
Increase in cash surrender value of life insurance		10,302
		$743,268

WORKING CAPITAL SUMMARY

	December 31, 1966	December 31, 1965	Increase Decrease*
Current assets	$3,259,316	$3,045,808	$213,508
Current liabilities	1,016,952	782,314	234,638
Working capital	$2,242,364	$2,263,494	$ 21,130*

See notes to financial statements.

ACCOUNTANTS' REPORT

The Stockholders and Board of Directors,
API Instruments Company, Chesterland, Ohio

We have examined the balance sheet of API Instruments Company as of December 31, 1966, and the related statements of earnings, retained earnings, additional paid-in capital, and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements referred to above present fairly the financial position of API Instruments Company at December 31, 1966, and the results of its operations, and the source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Ross, Bailey + Smart

Cleveland, Ohio
February 27, 1967

Certified Public Accountants.

API INSTRUMENTS CO.

CHESTERLAND, OHIO

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ALBERT E. R. SCHNEIDER, JR., TTEE. U/A/W
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MARY FRANCES SCHNEIDER
2504 FAIRMOUNT BLVD.
CLEVELAND 6, OHIO 297-40-6303
44106

The equipment below, which incorporates API instruments, is typical of that used in the applications depicted on the front cover. Left to right are a medical instrument, an infrared pyrometer, semi-conductor furnace, monitor for electrodeposition of paint and a protective device for electric utilities.

api INSTRUMENTS CO.

CHESTERLAND, OHIO 44026